

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Adoption of Rates

ITEM NUMBER: 7

ATTACHMENT(S): 0

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

The Teachers' Retirement Board is required to adopt the following rates:

- a. Regular Interest
- b. Contribution Rate for Additional Service Credit,
- c. Employer Contribution Rate for Reduced Workload Program,
- d. Employer Contribution Rate for Elected Officials of Employee Organizations,
- e. Credited Interest Rate - Defined Benefit Plan, and
- f. Credited Interest Rate - Cash Balance Plan

These rates are presented annually to the Teachers' Retirement Board.

RECOMMENDATION

The staff recommends that the Board adopt the following rates:

Regular Interest Rate of 6.75% for the 1998/99 fiscal year,

Contribution Rate for Additional Service Credit of 15.79% for the 1998/99 fiscal year,

Employer Contribution Rate of 8.25% for Reduced Workload Program for the 1998/99 fiscal year,

Employer Contribution Rate of 12.28% for Elected Officials of Employee Organizations for the 1998/99 fiscal year,

Credited Interest Rate - Defined Benefit Plan of 6.00% for the 1998/99 fiscal year, and

Credited Interest Rate - Cash Balance Plan of 6.50% for the 1998/99 fiscal year.

TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Adoption of Rates - Regular Interest

ITEM NUMBER: 7a

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

The "Regular Interest Rate" is used by the System to charge interest on previously refunded retirement contributions when a member elects to redeposit, and to charge interest on installment payments for the redeposit or for the purchase of additional service credit. This rate is also used to charge employers interest on delinquent contributions. In the event of a delay in allowance payment, the System pays the benefit recipient interest on the allowance payment at the Regular Interest Rate.

Section 22162 of the Education Code specifies that "'Regular interest' is interest which is compounded annually based upon the annual equivalent of the average rate yielded on commitments during the prior fiscal year for maturities of more than one year in length of fixed-income senior securities. For purposes of this section, 'senior securities' means all investments except common and preferred stock investments and real estate ownership."

The rate of return on new purchases of long-term fixed income securities (bonds and mortgages) during the prior fiscal year was 6.982%. When rounded down to the last full 1/4%, this rate of return would result in a regular interest rate of 6.75%. This is an increase from the rate of 6.50% adopted for the 1997/98 fiscal year.

RECOMMENDATION

The staff recommends that the Teachers' Retirement Board adopt the Regular Interest Rate of 6.75% for the 1998/99 fiscal year.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Regular Interest Rate
for the 1998/99 Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law specifies that the regular interest rate is based upon the average rate yielded on commitments during the prior year for long-term, fixed income securities, and

WHEREAS, the average rate yielded on such commitments for the prior fiscal year was 6.982%; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt a regular interest rate of 6.75% per annum for the 1998/99 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

on June 4, 1998

James D. Mosman
Chief Executive Officer

TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Adoption of Rates - Contribution Rate for
Additional Service Credit

ITEM NUMBER: 7b

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

The "Contribution Rate for Additional Service Credit" is used to determine the contributions due from a member for the purchase of service credit for certain approved leaves of absence or service that has not been credited in the System. At the October 10, 1991 Board Meeting, the Board adopted the recommendations of the "Report on Benefit Structure Equity of the California State Teachers' Retirement System as Required Under SB 2469." As a result of the recommendation under Issue 10 of the Study, the base for the Contribution Rate for Additional Service Credit was changed from the 40-year funding rate to the Normal Cost Rate. The Normal Cost Rate is based on the cost of crediting service for the average ages of all members.

Section 22117 of the Education Code specifies that "Contribution rate for additional service credit means the contribution rate adopted by the board to purchase service credit. This rate shall be based upon the most recent valuation of the system and increased to include any subsequently required contribution rates designated for funding subsequent allowance increases."

Based on the Normal Cost Rate identified in the June 30, 1997 actuarial valuation, the Contribution Rate for Additional Service Credit would be 15.79% for the 1998/99 year. This is a decrease from the rate of 16.07% adopted for the 1997/98 fiscal year.

RECOMMENDATION

The staff recommends that the Teachers' Retirement Board adopt a Contribution Rate for Additional Service Credit of 15.79% for the 1998/99 fiscal year.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Contribution Rate
for Additional Service Credit
for the 1998/99 Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Board adopt the Contribution Rate for Additional Service Credit to be used as the contribution rate for the purchase of permissive service credit, and

WHEREAS, on October 10, 1991, the Teachers' Retirement Board adopted the recommendations of the "Report on Benefit Structure Equity of the California State Teachers' Retirement System as Required Under SB 2469," which recommended that the Contribution Rate for Additional Service Credit be based on the Normal Cost Rate of the System, and

WHEREAS, the June 30, 1997 Actuarial Valuation identifies a Normal Cost Rate of 15.79% of payroll; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt a Contribution Rate for Additional Service Credit of 15.79% for the 1998/99 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:

Teachers' Retirement Board

on June 4, 1998

James D. Mosman
Chief Executive Officer

TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Adoption of Rates - Employer Contribution Rate
for Reduced Workload Program

ITEM NUMBER: 7c

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

The "Employer Contribution Rate for Reduced Workload Program" is used to charge the employer for the service credit granted to a member who is a participant in the Reduced Workload Program. Under this program, the member receives a full year of service credit, even though the member has reduced his or her workload from full-time to part-time.

The member contributes the amount that he or she would have contributed if employed full-time. The employer contributes an amount based upon the salary the member would have been paid if employed full-time in the position during that year. For the period during which the member is not required to work to receive service credit, the employer is required to contribute at the Employer Contribution Rate for Reduced Workload Program as specified by the Board under the provisions of Education Code Section 22713.

Previously the Employer Contribution Rate for the Reduced Workload Program was based on the Total Cost Rate, as identified in the most recent actuarial valuation. This was done to more accurately reflect the higher cost of crediting service at ages near retirement since the member must be 55 years of age to participate in this program. The Consulting actuary has commented that this program could be viewed as an inducement to keep qualified instructors in the workforce. He has further commented that while the costs are indeed higher for service at the end of a career, it would be his recommendation for this program that STRS charge the regular 8.25% employer contribution rate, which in the aggregate, when combined with contributions for amortization of the unfunded actuarial obligation, will now cover the costs of this benefit. Adopting this recommendation will result in a decrease from the rate of 12.50% adopted for the 1997/98 fiscal year.

RECOMMENDATION

The staff recommends that the Teachers' Retirement Board adopt the Consulting Actuary's recommendation and an Employer Contribution Rate of 8.25% for service credit granted under the Reduced Workload Program during the 1998/99 fiscal year.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Employer Contribution
Rate for Reduced Workload Program
for the 1998/99 Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Board adopt the Employer Contribution Rate for the Reduced Workload Program, and

WHEREAS, the Teachers' Retirement Board adopted a policy on June 4, 1998 to set the Employer Contribution Rate for the Reduced Workload Program at the current employer contribution rate, and

WHEREAS, the current employer contribution rate is 8.25% of payroll; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt the Employer Contribution Rate of 8.25% for participation in the Reduced Workload Program during the 1998/99 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:

Teachers' Retirement Board

on June 4, 1998

James D. Mosman
Chief Executive Officer

TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Adoption of Rates - Employer Contribution Rate
for Elected Officials of Employee Organizations

ITEM NUMBER: 7d

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

The "Employer Contribution Rate for Elected Officials" is used to charge the employer for service credit granted to a member for an approved leave of absence to serve as an elected official of an employee organization. The maximum amount of service credit that may be granted for service as an elected official of an employee organization is 12 years.

During the leave of absence, the member contributes the amount that would have been contributed if he or she had continued to perform service in the position on a full-time basis. The employer contributes an amount based upon the salary that the member would have been paid if employed full-time. During the leave of absence, the employer contributes at the Employer Contribution Rate for Elected Officials as specified by the Board under the provisions of Education Code Section 22711.

Subsequent to the June 30, 1981 actuarial valuation, the Teachers' Retirement Board adopted a policy of 40-year funding. The actuarial valuation as of June 30, 1991, reflected a reduction from 40 years in the estimated number of years required to amortize the unfunded actuarial obligation due to passage of the Elder Full Funding Act. In recognition of this reduced funding period, staff recommended that the Board revise the policy to base the Employer Contribution Rate for Elected Officials of Employee Organizations upon the Total Cost Rate, as identified in the most recent actuarial valuation, minus the member contribution rate. This method coincides with the method used in previous years, and produces a corresponding contribution rate.

The June 30, 1997 actuarial valuation identified a Total Cost Rate of 20.28% of member payroll. Subtracting the 8.00% member contribution rate from the total cost rate results in an employer contribution rate of 12.28% for service credit granted for a leave of absence by an employee to serve as an elected official of an employee organization. This is a decrease from the rate of 12.50% adopted for the 1997/98 fiscal year.

RECOMMENDATION

The staff recommends that the Teachers' Retirement Board adopt an Employer Contribution Rate of 12.28% for Elected Officials of Employee Organizations for the 1998/99 fiscal year.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Employer Contribution
Rate for Elected Officials
for the 1998/99 Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Board adopt the Employer Contribution Rate for Elected Officials of Employee Organizations, and

WHEREAS, Education Code Section 87768.5 requires that retirement contributions for a compensated leave of absence for service as an elected officer of a community college district employee organization include the amount necessary to pay any unfunded liability cost for the retirement plan, and

WHEREAS, the Teachers' Retirement Board adopted a policy on April 27, 1984 which effectively based the Employer Contribution Rate for Elected Officials on the difference between the Total Cost Rate and the member contribution rate, and

WHEREAS, the June 30, 1997 Actuarial Valuation identifies a total cost rate of 20.28% of payroll; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt the Employer Contribution Rate of 12.28% for compensated leaves of absence for service as Elected Officials of Employee Organizations during the 1998/99 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:

Teachers' Retirement Board

on June 4, 1998

James D. Mosman
Chief Executive Officer

TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Credited Interest Rate - Defined Benefit Plan

ITEM NUMBER: 7e

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

Credited interest, as defined by Section 22120 of the Teachers' Retirement Law, "... is interest that is credited to members' accounts at a rate set annually by the Board."

The Teachers' Retirement Board (TRB) historically used the passbook rates of banks and savings and loan associations as a comparable base in establishing the System's credited interest rate. At the November 7, 1991 meeting of the TRB, the Board approved a change in the method of determining the credited interest rate in response to Internal Revenue Service regulations concerning mandatory Social Security membership for part-time employees who are not covered by a retirement plan that credits interest to member accounts at a "reasonable rate". As long as part-time employees are permitted to elect membership in STRS, the credited interest rate must meet the IRS' definition of "reasonable."

That change was memorialized in TRB Resolution No. 91-56 to be "... an amount calculated annually based on the rate paid on two-year Treasury notes for the previous twelve months. The rate can go no higher than the System's actuarial assumed interest rate nor any lower than the current passbook rate...".

At the February 6, 1992 meeting of the TRB, staff reported that the period of May 1 through April 30 of the preceding year would be used to determine the most recent rates for two-year Treasury notes and interest on financial institution passbook accounts. The average rate paid on two-year Treasury notes during the period May 1, 1997 through April 30, 1998 was 5.75%. This would result in a rate of 6.00% when rounded up to the nearest 1/4%. This is a decrease from the rate of 6.25% adopted for the 1997/98 fiscal year.

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The average interest rate on passbook accounts was 3.34%. If the Board had not changed its policy on setting the credited interest rate, the rate for 98/99 would have been set at 3.50%.

RECOMMENDATION

The staff recommends that the Teachers' Retirement Board adopt a Credited Interest Rate of 6.00% for the 98/99 fiscal year.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Credited Interest Rate
for the 1998/99 Year
Defined Benefit Plan

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires the Teachers' Retirement Board to adopt the credited interest rate, and

WHEREAS, on November 7, 1991, the Teachers' Retirement Board adopted a policy of basing the credited interest rate on the rate paid on two-year Treasury notes for the previous twelve months, but not less than the current passbook account rate nor higher than the actuarial assumed interest rate, and

WHEREAS, the average rate for two-year Treasury notes during the past twelve months was 5.75%, which was greater than the current passbook account rate and less than the actuarial assumed interest rate; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt a credited interest rate of 6.00% per annum as rounded up to the nearest .25% for the 1998/99 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

on June 4, 1998

James D. Mosman
Chief Executive Officer

TEACHERS' RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE MEETING

SUBJECT: Credited Interest Rate -Cash Balance Plan

ITEM NUMBER: 7f

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

SUMMARY

Minimum Interest Rate, as defined by Section 26131 of the Teachers' Retirement Law, "... means the annual rate determined for the plan year by the board by means of an amendment to the plan..." At the March 7, 1996 meeting of the Teachers' Retirement Board, the Board approved the methodology for determining the minimum credited interest rate for contributions on deposit in the Cash Balance Plan as the thirty-year U.S. Treasury rate.

The credited interest rate for the STRS Cash Balance Plan is determined by averaging the rate for thirty-year U.S. Treasury notes during the twelve month period preceding the plan year (May 1 through April 30).

The average interest rate paid on thirty-year Treasury obligations during the period May 1, 1997 through April 30, 1998 was 6.27%. This would result in a rate of 6.50% when rounded up to the nearest 1/4%. This is a decrease from the rate of 7.00% adopted for the 1997/98 fiscal year.

RECOMMENDATION

The staff recommends that the Teachers' Retirement Board adopt a Minimum Credited Interest Rate of 6.50% for the 1998/99 fiscal year for employee and employer contributions in the Cash Balance Plan.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Plan Amendment
Regarding Credited Interest Rate for the 1998/99 Year
Cash Balance Plan

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law delegates to the Teachers' Retirement Board the authority to declare, by plan amendment, the minimum interest rate to be used to credit employee accounts and employer accounts for the plan year for the State Teachers' Retirement System Cash Balance Plan, and

WHEREAS, on March 7, 1996, the Teachers' Retirement Board adopted as the approach to the minimum crediting rate the average interest rate on thirty-year U.S. Treasury obligations for the twelve months preceding the applicable plan year, and

WHEREAS, the average rate for thirty-year Treasury notes during the past twelve months was 6.27%; therefore, be it

RESOLVED that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt as a plan amendment credited interest rate of 6.50% per annum as rounded up to the nearest .25% for the 1998/99 fiscal year.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

on June 4, 1998

James D. Mosman
Chief Executive Officer